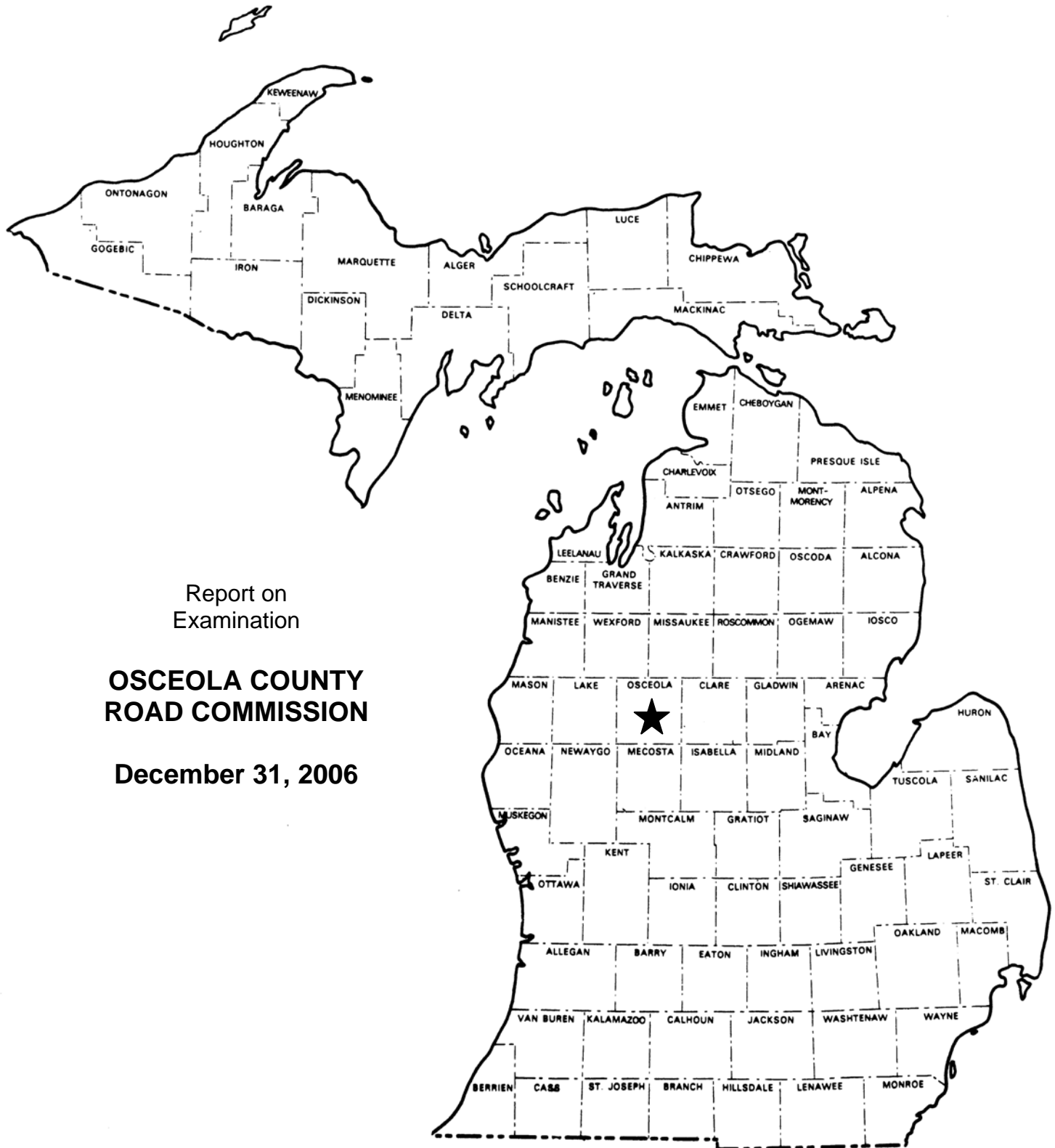


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**OSCEOLA COUNTY
ROAD COMMISSION**

December 31, 2006

OSCEOLA COUNTY ROAD COMMISSION
BOARD OF ROAD COMMISSIONERS

Stanley Gregory
Chairman

William Lehman
Vice Chairman

Donald Lewis
Member

William Huss
Clerk

Cliff Youngs
Engineer/Manager

COUNTY POPULATION--2000
23,197

STATE EQUALIZED VALUATION
\$949,629,255



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 4, 2007

Osceola County Road Commission
Board of County Road Commissioners
4737 Makwa Drive
Hersey, Michigan 49639

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Osceola County Road Commission, a component unit of Osceola County, Michigan, as of and for the year ended December 31, 2006, which comprises the Road Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Osceola County Road Commission as of December 31, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2007 on our consideration of the Osceola County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or

on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 10 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Osceola County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OSCEOLA COUNTY ROAD COMMISSION

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OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Osceola County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provides information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the Operating Fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities reports information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission currently has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's major fund begins below. The fund financial statements begin on page 13 and provide detailed information about the major fund.

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets increased approximately 10.52%, or \$1,093,620, from \$10,399,237 to \$11,492,857 for the year ended December 31, 2006. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such, all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The restricted net assets decreased by \$232,693 during 2006. The primary reason for the change was an increase in primary maintenance expenditures.

The investment in capital assets-net of related debt increased by \$1,326,313. The increase in net assets is primarily the result of reporting infrastructure of \$1,376,061 for the year 2006. The depreciation for the current year's infrastructure will be depreciated in the subsequent year.

Net assets as of year ended December 31, 2006 are as follows:

	<u>2005</u>	<u>2006</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 1,948,251	\$ 1,457,550	\$ (490,701)	-25.19%
Capital Assets	<u>13,267,006</u>	<u>14,420,320</u>	<u>1,153,314</u>	<u>8.69%</u>
Total Assets	<u>15,215,257</u>	<u>15,877,870</u>	<u>662,613</u>	<u>4.35%</u>
Liabilities				
Current	423,352	227,342	(196,010)	-46.30%
Noncurrent	<u>4,392,668</u>	<u>4,157,671</u>	<u>(234,997)</u>	<u>-5.35%</u>
Total Liabilities	<u>4,816,020</u>	<u>4,385,013</u>	<u>(431,007)</u>	<u>-8.95%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	9,204,462	10,530,775	1,326,313	14.41%
Restricted	<u>1,194,775</u>	<u>962,082</u>	<u>(232,693)</u>	<u>-19.48%</u>
Total Net Assets	<u>\$ 10,399,237</u>	<u>\$ 11,492,857</u>	<u>\$ 1,093,620</u>	<u>10.52%</u>

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2006 are as follows:

	Governmental Activities			
	2005	2006	Variance	%
Program Revenue				
License and Permits	\$ 10,025	\$ 11,125	\$ 1,100	10.97%
Federal Grants		90,331	90,331	100.00%
State Grants	4,221,959	3,769,721	(452,238)	-10.71%
Contributions From Local Units	429,774	438,172	8,398	1.95%
Investment Earnings	50,963	37,589	(13,374)	-26.24%
Charges for Services	1,454	4,715	3,261	224.28%
Donations From Private Sources	31,519	3,725	(27,794)	-88.18%
Reimbursements	30,399		(30,399)	100.00%
General Revenue				
Gain on Equipment Disposal	10,439	514,343	503,904	4827.13%
Total Revenue	4,786,532	4,869,721	83,189	1.74%
Expenses				
Public Works	3,214,986	3,602,125	(387,139)	-12.04%
Interest Expense	188,526	173,975	14,551	7.72%
Total Expenses	3,403,512	3,776,100	(372,588)	-10.95%
Increase in Net Assets	1,383,020	1,093,621	(289,399)	-20.93%
Beginning Net Assets	9,016,217	10,399,236	1,383,019	15.34%
Ending Net Assets	<u>\$ 10,399,236</u>	<u>\$ 11,492,857</u>	<u>\$ 1,093,621</u>	<u>10.52%</u>

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended December 31, 2006, the fund balance of the General Operations Fund decreased \$294,691 as compared to an increase of \$285,898 in the fund balance for the year ended December 31, 2005. Total revenues were \$4,869,721, an increase of \$83,188 as compared to last year. This minor increase in revenues resulted primarily from the receipt of Federal grants for road safety projects. Total expenditures were \$5,164,411, a decrease of \$3,266,223 as compared to last year. The decrease in expenditures is due primarily to the significant decrease in capital outlay that related to the two building facilities.

The Road Commission Board strives to hold a fund balance that allows for as many dollars as possible to be expended on road maintenance while also holding the balance where there is an environment for the smooth financial operations of the Road Commission.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in the Operating Fund are as follows:

	12/31/05 Operating Fund	12/31/06 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
License and Permits	\$ 10,025	\$ 11,125	\$ 1,100	10.97%
Federal Grants		90,331	90,331	#DIV/0!
State Grants	4,221,959	3,769,721	(452,238)	-10.71%
Contributions From Local Units	429,774	438,172	8,398	1.95%
Charges for Services	1,454	4,715	3,261	224.28%
Interest and Rents	50,963	37,588	(13,375)	-26.24%
Other Revenue	72,357	518,068	445,711	615.99%
Total Revenues	<u>4,786,532</u>	<u>4,869,720</u>	<u>83,188</u>	<u>1.74%</u>
Expenditures				
Public Works	4,122,766	4,079,619	43,147	1.05%
Net Capital Outlay	3,968,525	737,818	3,230,707	81.41%
Debt Service	339,343	346,974	(7,631)	-2.25%
Total Expenditures	<u>8,430,634</u>	<u>5,164,411</u>	<u>3,266,223</u>	<u>38.74%</u>
Excess of Expenditures Over Revenues	<u>(3,644,102)</u>	<u>(294,691)</u>	<u>3,349,411</u>	<u>91.91%</u>
Other Financing Sources				
Proceeds From Lease	<u>3,930,000</u>	<u></u>	<u>(3,930,000)</u>	<u>0.00%</u>
Total Other Financing Sources	<u>3,930,000</u>	<u>-</u>	<u>(3,930,000)</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	285,898	(294,691)	(580,589)	203.08%
Fund Balance--Beginning	<u>1,239,001</u>	<u>1,524,899</u>	<u>285,898</u>	<u>23.07%</u>
Fund Balance--Ending	<u>\$ 1,524,899</u>	<u>\$ 1,230,208</u>	<u>\$ (294,691)</u>	<u>-19.33%</u>

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2006 was \$897,600 or 22% more than the original budget. The primary reason was the increase in township contributions that were unknown at the beginning of the 2006 year and the gain on equipment disposal. Actual revenue recognized during 2006 was \$23,880 less than the final amended budget.

The final amended expenditure budget for 2006 was \$1,200,809 more than the original budget. The primary reasons for the increase were: 1) an increase of local road preservation which is a direct correlation with the township contributions (revenues), 2) increased equipment related expenses; and 3) road projects scheduled in 2005 were delayed and not completed until 2006 resulted in a significant increase in primary and local road preservation and structural improvements during the year.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital Assets

As of December 31, 2006, the Road Commission had invested \$14,420,320 in capital assets. This amount represents a net increase (including additions and deductions) of \$1,153,314 or 8.69% as follows:

	2005	2006	Total Percentage Change 2005/06
Capital Assets Not being Depreciated			
Land and Improvements	\$ 65,662	\$ 65,662	0.00%
Infrastructure Land Improvements	5,055,495	5,470,602	8.21%
Subtotal	5,121,157	5,536,264	8.11%
Capital Assets Being Depreciated			
Buildings	4,656,674	4,577,163	-1.71%
Equipment	5,415,994	5,720,638	5.62%
Depletable Assets	226,825	226,825	0.00%
Infrastructure	2,888,314	3,849,266	33.27%
Subtotal	13,187,807	14,373,892	8.99%
Total Capital Assets	18,308,964	19,910,156	8.75%
Total Accumulated Depreciation	(5,041,958)	(5,489,836)	8.88%
Total Net Capital Assets	<u>\$ 13,267,006</u>	<u>\$ 14,420,320</u>	<u>8.69%</u>

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$1,376,061. The infrastructure recorded, during 2006, will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

OSCEOLA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 134,390
Various Resurfacing Projects and Related Land/Right-of-Way	1,241,669
Buildings	59,474
Trucks/Equipment	646,533
Shop/Office Equipment	<u>31,811</u>
Total Additions	<u><u>\$2,113,877</u></u>

All equipment was acquired with Road Commission funds. During 2006, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$512,185, related depreciation of \$431,325, and net book value of \$80,860.

Debt

At year end, the Road Commission had \$3,889,545 in installment purchase and capital lease agreements versus \$4,062,544 last year, a decrease of \$172,999 or 4.26%.

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	\$ 387,544	\$ 289,545	\$ 97,999	25.29%
Capital Lease Agreement	<u>3,675,000</u>	<u>3,600,000</u>	<u>75,000</u>	<u>2.04%</u>
Total	<u><u>\$4,062,544</u></u>	<u><u>\$3,889,545</u></u>	<u><u>\$ 172,999</u></u>	<u><u>4.26%</u></u>

Other obligations include accrued vacation pay and sick leave. More detailed information about the Road Commission's long-term liabilities is presented in Note G to the financial statements.

OSCEOLA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derived approximately 79% of its revenues from Michigan's fuel tax collected in 2006. We are not projecting an increase in the Michigan Transportation Funds (MTF) due to the trend of the past three year's receipts and the continued increase in fuel costs. The Road Commission received approximately 10% of its revenues from township contributions during 2006. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. Township contributions for 2007 are anticipated to be less than those received in 2006.

As stated in the budgetary highlights section, the Road Commission Board strives to hold a solvent fund balance. Although the original 2007 budget projects another year of expenditures greater than revenues, the projected surplus at year end is sufficient for the solvency of the Road Commission.

The board is challenged in its budgeting, in that revenues, namely MTF funds, have not grown to keep pace with the significant increases in costs to run the Road Commission.

The board realizes and the reader should understand that there are not sufficient funds available to repair and/or rebuild every road in Osceola County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Osceola County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Osceola County Road Commission's administrative offices at (231) 832-5171.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2006

EXHIBIT A

ASSETS

Cash	\$ 550,502
Receivables	
Due From State--Road Projects	90,331
Michigan Transportation Fund	486,223
Due on County Road Agreements	86,064
Inventories	
Road Materials	119,360
Equipment Parts and Materials	125,070
Capital Assets (Net of Accumulated Depreciation)	<u>14,420,320</u>
Total Assets	<u>15,877,870</u>

LIABILITIES

Current Liabilities	
Accounts Payable	203,038
Due to State of Michigan	163
Accrued Liabilities	19,528
Performance Bonds Payable	4,613
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	96,000
Installment Purchase Agreements Payable--Due in More Than One Year	193,545
Capital Lease Payable--Due Within One Year	75,000
Capital Lease Payable--Due in More Than One Year	3,525,000
Vested Employee Benefits Payable	<u>268,126</u>
Total Liabilities	<u>4,385,013</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	10,530,775
Restricted for County Roads	<u>962,082</u>
Total Net Assets	<u>\$11,492,857</u>

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,052,095
Local Road Maintenance	1,530,991
Net Equipment Expense	686,179
Net Administrative Expense	289,972
Infrastructure Depreciation	104,886
Compensated Absences	(61,998)
Interest Expense	<u>173,975</u>
Total Program Expenses	<u>3,776,100</u>
Program Revenue	
Charges for Services	
License and Permits	11,125
Charges for Services	4,715
Operating Grants and Contributions	
State of Michigan Transportation Funds	3,370,384
Investment Earnings	37,589
Capital Grants and Contributions	
Federal Grants	90,331
State Grants	399,337
Contributions From Local Units	438,172
Donations From Private Sources	<u>3,725</u>
Total Program Revenue	<u>4,355,378</u>
Net Program Revenue	<u>579,278</u>
General Revenue	
Gain on Equipment Disposal	<u>514,343</u>
Total General Revenues	<u>514,343</u>
Change in Net Assets	1,093,621
Net Assets	
Beginning of Year	<u>10,399,236</u>
End of Year	<u><u>\$ 11,492,857</u></u>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2006**

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

General
Operating
Fund

ASSETS

Cash	\$ 550,502
Receivables	
Due From State--Road Projects	90,331
Michigan Transportation Fund	486,223
Due on County Road Agreements	86,064
Inventories	
Road Materials	119,360
Equipment Parts and Materials	125,070
Total Assets	<u>\$ 1,457,550</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 203,038
Due to State	163
Accrued Liabilities	19,528
Performance Deposits Payable	4,613
Total Liabilities	<u>227,342</u>
Fund Equities	
Reserved for Inventory	244,430
Fund Balance--Unreserved and Undesignated	985,778
Total Fund Equities	<u>1,230,208</u>
Total Liabilities and Fund Equities	<u>\$ 1,457,550</u>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,230,208
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,420,320
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(4,157,671)</u>
--	--------------------

Net Assets of Governmental Activities	<u><u>\$11,492,857</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2006**

EXHIBIT E

	Operating Fund
Revenues	
Permits	\$ 11,125
Federal Grants	90,331
State Grants	3,769,721
Contributions From Local Units	438,172
Charges for Services	4,715
Interest and Rents	37,588
Other Revenue	518,068
	<hr/>
Total Revenues	4,869,720
	<hr/>
Expenditures	
Public Works	4,079,619
Capital Outlay	737,818
Debt Service	346,974
	<hr/>
Total Expenditures	5,164,411
	<hr/>
Excess of Revenues Over (Under) Expenditures	(294,691)
Fund Balance--January 1, 2006	1,524,899
	<hr/>
Fund Balance--December 31, 2006	\$ 1,230,208
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**OSCEOLA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ (294,691)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. 1,153,315
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the 172,999
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Decrease in compensated absences) 61,998

Change in Net Assets of Governmental Activities \$ 1,093,621

The Notes to Financial Statements are an integral part of this statement.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Osceola County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Osceola County Road Commission.

NOTE A--REPORTING ENTITY

The Osceola County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Laws (MCL) 224.1, is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners and property taxes would be levied under the taxing authority of the county, as approved by the county board of commissioners. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Osceola County Road Commission, a discretely presented component unit of Osceola County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Osceola County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash and Investments

Cash is considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Osceola County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Osceola County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before December 31, 2007, as permitted by GASB Statement No. 34.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief fiscal officer (road clerk) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public hearing and subsequently adopts the operating budget. The board has authorized the fiscal officer to amend the Road Commission's budget, when necessary, by transferring up to \$50,000 from one line-item to another. The Road Commission's budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

MCL 129.91 authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated two banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 550,402
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 550,502</u></u>

The bank balance of the primary government's deposits is \$627,526, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investments in all those that are authorized by law.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

A summary of changes in the Road Commission's capital assets are as follows:

	Account Balances 01/01/06	Additions	Deductions	Account Balances 12/31/06
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 65,662			\$ 65,662
Infrastructure Land Improvements	5,055,495	\$ 415,107		5,470,602
Subtotal	5,121,157	415,107	\$ -	5,536,264
Capital Assets Being Depreciated				
Buildings	4,656,674	59,474	138,985	4,577,163
Road Equipment	5,250,908	646,533	363,741	5,533,700
Shop Equipment	98,452	30,661	9,459	119,654
Office Equipment	30,615	1,150		31,765
Engineer's Equipment	35,519			35,519
Depletable Assets	226,825			226,825
Infrastructure--Bridges	465,534	134,390		599,924
Infrastructure--Roads	2,422,780	826,562		3,249,342
Subtotal	13,187,307	1,698,770	512,185	14,373,892
Less Accumulated Depreciation				
Building	363,674	178,046	120,901	420,819
Road Equipment	3,963,915	582,138	300,965	4,245,088
Shop Equipment	76,731	6,745	9,459	74,017
Office Equipment	26,474	1,127		27,601
Engineer's Equipment	18,929	4,171		23,100
Depletable Assets	197,648	2,594		200,242
Infrastructure--Bridges	25,307	15,226		40,533
Infrastructure--Roads	368,780	89,656		458,436
Total	5,041,458	879,703	431,325	5,489,836
Net Capital Assets Being Depreciated	8,145,849	819,067	80,860	8,884,056
Total Net Capital Assets	<u>\$13,267,006</u>	<u>\$2,113,877</u>	<u>\$960,563</u>	<u>\$14,420,320</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation and depletion expense was charged to the following activities:

Net Equipment Expense	
Direct Equipment	\$ 577,401
Indirect Equipment	
Shop Building	178,046
Shop Equipment	6,745
 Net Administrative Expense	
Office Equipment	1,127
Office Vehicles	8,908
 Depletion Expense	2,594
 Infrastructure Depreciation	<u>104,882</u>
 Total Depreciation Expense	<u><u>\$ 879,703</u></u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balance 01/01/06</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/06</u>	<u>Due Within One Year</u>
Caterpillar Track-Type Tractor Model D4GXL \$67,895 Capital Lease Dated July 1, 2003	\$ 44,752	\$ (7,414)	\$ 37,338	\$ 7,686
Caterpillar Excavator Model 312CL \$92,095 Capital Lease Dated July 15, 2003	69,110	(13,601)	55,509	8,446
Two 2003 International Trucks \$212,000 Promissory Note Dated May 16, 2003, maturing serially through 2008 with quarterly installments of \$11,558 and an interest rate of 3.3%.	110,191	(43,124)	67,067	44,565
Two 2004 International Trucks \$180,000 Promissory Note Dated May 15, 2005, maturing serially through 2010 with quarterly installments of \$9,998 and an interest rate of 3.99%.	163,491	(33,859)	129,632	35,304
Two Road Commission Facilities \$3,750,000 Capital Lease Dated April 1, 2004, maturing serially through 2034 with biannual payments ranging from \$75,000 to \$225,000 and at an interest rate ranging from 3.0% to 4.875%.	3,675,000	(75,000)	3,600,000	75,000
Vested Employee Benefits Vacation and Sick Leave	<u>330,124</u>	<u>(61,998)</u>	<u>268,126</u>	
Totals	<u>\$ 4,392,668</u>	<u>\$ (234,996)</u>	<u>\$ 4,157,672</u>	<u>\$ 171,001</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

A Caterpillar Track-Type Tractor Model D4GXL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$67,895, with 5 annual payments of \$9,181 and a \$30,888 balloon payment due in July 2008 at an implied interest rate of 3.99999%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
07/01/03	\$ 67,895	3.99999%	2007	\$ 7,686	\$ 1,495
			2008	<u>29,652</u>	<u>1,188</u>
			Total	<u>\$37,338</u>	<u>\$ 2,683</u>

A Caterpillar Excavator Model 312CL was purchased in July 2003 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$92,095, with 20 quarterly payments of \$3,291 and a \$41,691 balloon payment due in July 2008 at an implied interest rate of 3.5998%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
07/15/03	\$92,095	3.59980%	2007	\$ 8,446	\$ 1,423
			2008	<u>47,063</u>	<u>1,193</u>
			Total	<u>\$ 55,509</u>	<u>\$ 2,616</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Two 2003 International Trucks were purchased in May 2003 under a promissory note through Huntington Bank. The original purchase price was \$212,000, with 20 quarterly payments of \$11,558 at an interest rate of 3.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
05/15/03	\$212,000	3.3%	2007	\$ 44,565	\$ 1,665
			2008	<u>22,502</u>	<u>277</u>
			Total	<u>\$ 67,067</u>	<u>\$ 1,942</u>

Two International Tractors, Model 5900I, were purchased in May 2005 under a lease purchase agreement through Huntington National Bank. The original purchase price was \$180,000, with 20 quarterly payments of \$9,988 at an implied interest rate of 3.99%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/06</u>	<u>Interest Payable if Held to Maturity</u>
05/16/05	\$ 180,000	3.99000%	2007	\$ 35,304	\$ 4,647
			2008	36,734	3,217
			2009	38,221	1,729
			2010	<u>19,373</u>	<u>288</u>
			Total	<u>\$ 129,632</u>	<u>\$ 9,881</u>

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

On September 1, 2004, the Osceola County Building Authority issued Building Authority Bonds, Series 2004, in the amount of \$3,750,000 for the purpose of constructing, furnishing and equipping two new facilities for the Osceola County Road Commission. The Road Commission has entered into a 30 year capital lease agreement as lessee for the financing of these two new facilities with Osceola County who leased the facilities from the Building Authority, after which time the possession of the leased premises shall vest in the Road Commission after the bonds are retired. The Road Commission is to operate and maintain the leased premises and keep them in good condition and repair.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
05/16/05	\$ 3,750,000	3.99%	2007	\$ 75,000	\$ 157,681
			2008	75,000	155,431
			2009	75,000	153,181
			2010	75,000	150,837
			2011	75,000	148,306
			2012-2016	450,000	695,542
			2017-2021	550,000	596,392
			2022-2026	675,000	460,889
			2027-2031	900,000	270,366
			2032-2034	650,000	48,750
			Total	<u>\$ 3,600,000</u>	<u>\$2,837,375</u>

Vested Employee Benefits

Vacation is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee at the beginning of each year, not to exceed a total accumulation of 44 days for union employees, 59 days for administrative and nonunion supervisory employees. Vacation is payable at 100% to employees when they terminate employment.

Sick leave is accumulated at the rate of 1 day for each month of service, not to exceed a total accumulation of 125 days for any employee. Sick pay is payable at the following percentage when employees leave prior to retirement.

10 years of service	60 percent
5-10 years of service	40 percent
0-5 years of service	20 percent

Sick leave is payable at 100% at retirement or death.

Total accumulated vacation and sick leave has been recorded in the long-term debt. At December 31, 2006, the total vested vacation and sick leave benefits were \$52,539 and \$215,587, respectively.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Osceola County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement for general and administration is computed using credited service at the time of termination of membership multiplied by the sum of 2.25% of the final average compensation (FAC) with a maximum benefit of 80% of the FAC for the general and administrative employees. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining units. The employee contribution for the year ending December 31, 2005, was 1.5% of gross wages for general employees and 1.5% of gross wages for administrative employees. The Road Commission was required to contribute at an actuarially determined rate; the current rate was 8.41% and 12.81% of annual compensation at December 31, 2003, for the general and administrative groups, respectively, of annual compensation.

Annual Pension Cost

For the year ended December 31, 2005, the Road Commission's annual pension cost was \$104,354 based on the actuarially determined rate for 2003. The employees contributed \$16,847 in accordance with the union and personnel agreements. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

Year Ended December 31	Annual Pension Cost (APC)		Percentage Of APC Contributed	Net Pension Obligation
	Employer	Employee		
2003	\$ 104,017	\$ 17,276	100%	\$0
2004	108,321	16,341	100%	\$0
2005	104,354	16,847	100%	\$0

Required Supplementary Information for GASB Statement No. 27

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Underfunded		Covered Payroll	UAAL as a Percent of Covered Payroll
			Actuarial Accrued Liability (UAAL)	Funded Ratio		
12/31/03	\$ 4,767,569	\$ 5,379,367	\$ 611,798	89%	\$ 1,136,216	54%
12/31/04	4,962,306	5,761,285	798,979	86%	1,065,505	75%
12/31/05	5,115,949	5,951,945	835,996	86%	1,123,147	74%

NOTE H--POST-EMPLOYMENT BENEFITS

Osceola County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The employer will pay all costs for Blue Cross/Blue Shield, including spouse, from the time the retiree is 62 years old until 65 years of age. After age 65, retirees must reimburse the employer for the cost of insurance. Employees that retire before age 62 may remain in the health group if they reimburse the employer for the cost of insurance.

Currently, 5 retirees meet those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Premiums paid by the Road Commission in 2006 totaled \$41,270, while reimbursements from retirees totaled \$16,424. The net cost to the Road Commission was \$24,846.

OSCEOLA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool (MCRCSIP) for claims relating to general and auto liability, auto physical damage and property loss claims. The Road Commission is self-insured through the County Road Association Self-Insurance Fund (CRASIF) for workers' compensation claims. The MCRCSIP operates as a claims servicing pool for amounts up to \$1,000,000 per member. Claims in excess of that amount up to \$10,500,000 would be covered by an excess insurance carrier. Although premiums are paid annually to the MCRCSIP (that it uses to pay claims up to the \$1,000,000 limit), the ultimate liability for those claims remain with the Road Commission. Amounts of settlements have not exceeded insurance coverage in the prior three years.

NOTE J--CONTINGENT LIABILITIES

The Road Commission, in connection with the normal conduct of its affairs, is involved in various claims, judgments and litigation. The Road Commission's insurance carrier estimates that the potential claims against the Road Commission, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the Road Commission.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the calendar year ended December 31, 2006, the Federal aid received and expended by the Road Commission was \$0 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to Single Audit requirements by the road commissions, as they are included in MDOT's Single Audit.

During the calendar year ended December 31, 2006, the Road Commission received two federal negotiated projects totaling \$90,331. Negotiated projects are projects that are performed by the Road Commission and are subject to Single Audit requirements, if the amount expended is \$500,000 or more. A Single Audit was not required for the calendar year ended December 31, 2006.

OSCEOLA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Weight Permits	\$ 10,000	\$ 10,000	\$ 11,125	\$ 1,125
Federal Grants				
Surface Transportation Program	144,000	100,000	90,331	(9,669)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,060,000	2,040,000	2,029,231	(10,769)
Local Road	1,304,000	1,288,000	1,304,739	16,739
Snow Removal	27,000	27,000	26,414	(586)
Economic Development Funds				
Forest Funds (E)	50,000	60,000	56,507	(3,493)
Exchange of Federal Funds	375,000	343,000	342,830	(170)
Contributions--Local Units				
Townships	-	460,000	438,172	(21,828)
Charges for Services				
Salvage Sales	1,000	4,600	4,715	115
Interest and Rents				
Interest Earned	10,000	30,000	32,633	2,633
Rental Income	3,000	4,000	4,955	955
Other Revenue				
Contributions From Private Sources	2,000	3,000	3,725	725
Gain on Equipment Disposal	-	514,000	514,343	343
Total Revenue	<u>3,996,000</u>	<u>4,893,600</u>	<u>\$ 4,869,720</u>	<u>\$ (23,880)</u>
Fund Balance--January 1, 2006	<u>1,200,295</u>	<u>1,524,899</u>		
Total Budget	<u>\$ 5,196,295</u>	<u>\$ 6,418,499</u>		

OSCEOLA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2006

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 450,000	\$ 980,000	\$ 979,939	\$ 61
Routine and Preventive Maintenance	1,320,000	1,074,000	1,052,095	21,905
Local Road				
Preservation/Structural Improvements	-	272,000	261,731	10,269
Routine and Preventive Maintenance	1,600,000	1,537,000	1,530,991	6,009
Primary Road Structure				
Preservation/Structural Improvements	-	15,161	15,161	-
Local Road Structure				
Preservation/Structural Improvements	-	120,000	119,230	770
Equipment Expense--Net	200,000	691,000		
Direct			\$ 1,134,235	
Indirect			576,094	
Operating			321,709	
Less: Equipment Rentals			(1,345,859)	4,821
Administrative Expense--Net	319,300	299,800		
Administrative Expense			290,313	
Less: Purchase Discounts			(341)	9,828
Capital Outlay--Net	(208,528)	(111,000)		
Capital Outlay			737,818	
Less: Depreciation Credits			(774,821)	
Equipment Retirements			(80,858)	6,861
Debt Service				
Principal Payments	329,885	173,149	172,999	150
Interest Expense	13,643	173,999	173,975	24
Total Expenditures	4,024,300	5,225,109	\$ 5,164,411	\$ 60,698
Fund Balance--December 31, 2006	1,171,995	1,193,390		
Total Budget	\$ 5,196,295	\$ 6,418,499		

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2006

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,646,215	\$1,678,988	\$ 544,517	\$ 4,869,720
Total Expenditures	2,483,339	2,446,195	234,877	5,164,411
Excess of Revenues Over (Under) Expenditures	162,876	(767,207)	309,640	(294,691)
Other Financing Sources (Uses)				
Optional Transfers	(610,595)	610,595		-
Interfund Adjustments		115,314	(115,314)	-
Total Other Financing Sources (Uses)	(610,595)	725,909	(115,314)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(447,719)	(41,298)	194,326	(294,691)
Fund Balance--January 1, 2006	1,172,634	41,298	310,967	1,524,899
Fund Balance--December 31, 2006	\$ 724,915	\$ -	\$ 505,293	\$ 1,230,208

OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
For the Year Ended December 31, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Weight Permits			\$ 11,125	\$ 11,125
Federal Grants				
Surface Transportation Program	\$ 90,331			90,331
State Grants				
Michigan Transportation Fund				
Engineering	6,087	\$ 3,913		10,000
Allocation	2,029,231	1,304,739		3,333,970
Snow Removal		26,414		26,414
Exchange of Federal Funds	342,830			342,830
Economic Development Fund				
Forest Funds (E)	56,507			56,507
Contributions--Local Units				
Townships	96,135	342,037		438,172
Charges for Services				
Salvage Sales			4,715	4,715
Interest and Rents				
Interest Earned	25,094	885	6,654	32,633
Rental Income			4,955	4,955
Other Revenue				
Contributions Form Private Sources		1,000	2,725	3,725
Gain on Disposal of Equipment			514,343	514,343
Total Revenue	\$ 2,646,215	\$ 1,678,988	\$ 544,517	\$ 4,869,720

**OSCEOLA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2006**

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 979,939			\$ 979,939
Routine and Preventive Maintenance	1,052,095			1,052,095
Local Road				
Preservation/Structural Improvements		\$ 261,731		261,731
Routine and Preventive Maintenance		1,530,991		1,530,991
Primary Road Structures				
Preservation/Structural Improvements	15,161			15,161
Local Road Structures				
Preservation/Structural Improvements		119,230		119,230
Equipment Expense--Net (Per Exhibit H)	286,205	394,210	\$ 5,764	686,179
Administrative Expense--Net (Per Exhibit H)	149,939	140,033		289,972
Capital Outlay--Net (Per Exhibit H)			(117,861)	(117,861)
Debt Service				
Principal Payments			172,999	172,999
Interest Payments			173,975	173,975
Total Expenditures	\$ 2,483,339	\$ 2,446,195	\$ 234,877	\$ 5,164,411



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

April 4, 2007

Osceola County Road Commission
Board of County Road Commissioners
800 South Chestnut Street
Reed City, Michigan 49677

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Osceola County Road Commission, a component unit of Osceola County, as of and for the year ended December 31, 2006, and have issued our report thereon dated April 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Osceola County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Osceola County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Osceola County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Osceola County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Osceola County Board of Road Commissioners, the Road Commission's management and others within the Road Commission, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division